

PFC Audit and Recommendations

Background

The Select Committee on Pension Policy (SCPP) is required to study and make recommendations on changes to assumptions or contribution rates to the Pension Funding Council (PFC) prior to adoption of changes by the PFC.

Committee Activity

Presentations:

August 17, 2004 - Full Committee
September 7, 2004 - Full Committee

Subgroup Activity:

August 31, 2002 - PFC Subgroup

Recommendation to Legislature

None. At the September 7, 2004, the SCPP recommended that the PFC adopt the 2005-07 contribution rates, as calculated by the State Actuary, including the cost of recognizing the liability associated with future gain-sharing benefits.

Staff Contact

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Select Committee on Pension Policy

Pension Funding Council Audit and Recommendations

(August 9, 2004)

Issue

The Select Committee on Pension Policy (SCPP) is required to study and make recommendations on changes to assumptions or contribution rates to the Pension Funding Council (PFC) prior to adoption of changes by the PFC.

Staff

Matt Smith, State Actuary
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Council Membership

The PFC consists of the following members:

- Director of the Department of Retirement Systems;
- Director of the Office of Financial Management;
- Chair and ranking minority member of the house of representatives appropriations committee; and
- Chair and ranking minority member of the senate ways and means committee.

The PFC is supported by a work group consisting of one staff member from each of the following agencies or committees: Department of Retirement Systems, Office of Financial Management, State Investment Board, Senate Ways and Means Committee, House Appropriations Committee, and the Economic and Revenue Forecast Council.

Power and Duties

The PFC adopts changes to long-term economic assumptions, asset smoothing method and contribution rates. The council solicits and administers a biennial actuarial audit of the actuarial valuations used for rate-setting purposes and administers an actuarial audit of the results of the experience study required under RCW 41.45.090.

Any changes adopted by the PFC are subject to revision by the legislature.

Coordination with SCPP

Upon receipt of the results of the actuarial audits, the PFC submits the results to the SCPP. The SCPP studies and makes recommendations on changes to assumptions or contribution rates to the PFC prior to adoption of changes under RCW 41.45.030 (adoption of long-term economic assumptions), 41.45.035 (long-term economic assumptions and asset smoothing technique), or 41.45.060 (adoption of contribution rates).

Process Overview and Time Line

Beginning April 1, 2004, and every four years thereafter:

- the state actuary submits to the PFC information regarding the experience and financial condition of the state retirement systems (report attached).

By May 31, 2004, and every four years thereafter:

- the PFC may adopt changes to the long-term economic assumptions and asset smoothing technique (no changes were adopted in 2004).

By August 31, 2004, and every two years thereafter:

- the PFC receives the preliminary results of the actuarial audits and submits the results to the SCPP.

Not later than September 30, 2004, and every two years thereafter:

- the SCPP studies and makes recommendations to the PFC on changes to assumptions or contribution rates.
- the PFC adopts and may make changes to the basic employer and state contribution rates for PERS, TRS, SERS, LEOFF Plan 1 and WSP. The contribution rates are effective for the ensuing biennium subject to revision by the legislature.

2004 SCPP Action Items

- Receive the preliminary results of the actuarial audits (by August 31, 2004)
- Study and make recommendations to the PFC on changes to contribution rates (prior to adoption by the PFC in September).

The PFC did not adopt changes to the long-term economic assumptions or asset smoothing method. The statutory deadline to adopt such changes for this year's cycle was May 31, 2004. Therefore, the available period for the SCPP to provide recommendations to the PFC on assumptions and asset smoothing method has closed. The next statutory window for this review opens on April 1, 2008 and closes on May 31, 2008.

Preliminary Contribution Rates

System	Current Employer Rates	Preliminary Employer Rates for 05-07*
PERS	1.18%	5.49%
TRS	1.17%	6.51%
SERS	0.85%	7.27%
LEOFF 1	0.00%	0.00%
WSP	0.00%	4.35%

Excludes current administrative expense charge of 0.22%

** Unaudited results. Includes the cost of prefunding the liability for existing gain-sharing benefit provisions in PERS, TRS and SERS.*

System	Current Plan 2 Employee Rates	Preliminary Plan 2 Employee Rates for 05-07*
PERS	1.18%	3.25%
TRS	0.87%	2.48%
SERS	0.85%	3.51%
WSP (all actives)	2.00%	4.35%

The employee contribution rate in PERS and TRS Plan 1 is fixed at 6%. Plan 3 employees do not contribute to the defined benefit portion of their plan.

** Unaudited results.*

Select Committee on Pension Policy

PFC Subgroup Report

(September 3, 2004)

The PFC subgroup of the SCPP met in Olympia, Washington on August 31, 2004.

Subgroup members attending:

Senator Fraser
Representative Conway
Representative Fromhold
Leland Goeke
Glenn Olson
J. Pat Thompson

Meeting Summary

Representative Conway called the meeting to order and discussed the purpose of the subgroup meeting was to formulate a recommendation to the full SCPP concerning the adoption of employer and plan 2 member contribution rates for the 2005-07 biennium. Matt Smith, State Actuary, reviewed SCPP and PFC background materials related to the subgroup's agenda.

The subgroup discussed the preliminary 2005-07 contribution rates presented by the State Actuary and reviewed the preliminary actuarial audit report presented to the PFC by Milliman U.S.A. on August 31, 2004. The report found that the actuarial work performed by the Office of the State Actuary (OSA) was reasonable and appropriate, the total liabilities calculated by Milliman matched closely to the liabilities calculated by the OSA, and the resulting contribution rates calculated by the OSA for the 2005-07 biennium are accurate.

The subgroup discussed the impact of funding the liability for future gain-sharing benefits. As reported by the State Actuary and verified in the actuarial audit, future gain-sharing benefits represent a material liability to the affected retirement systems and were excluded from previous actuarial valuations

performed by the OSA. Subgroup members that attended the earlier PFC meeting discussed that the Office of Financial Management (OFM) was not aware of the fiscal impact of recognizing the liability of future gain-sharing benefits and that the additional \$176 million GF-S impact was not included in preliminary OFM budget documents for the 2005-07 biennium.

The subgroup then discussed a proposal presented by Member Olson to defer or phase-in projected rate increases over a 6-year period. Representative Conway proposed that a deferred rate increase proposal could be combined with a permanent contribution rate floor. The subgroup members directed the State Actuary to prepare a deferred rate increase proposal for the September 7, 2004 Executive Committee meeting of the SCPP.

Subgroup Recommendations

Recommendation to the PFC

Adopt the preliminary 2005-07 contribution rates, as calculated by the State Actuary, including the cost of recognizing the liability associated with future gain-sharing benefits.

Recommendation to the SCPP

Develop a legislative proposal that would defer or phase-in projected employer and plan 2 member rate increases over the next 3 biennia. Proposal should include a permanent contribution rate floor after the 6-year phase-in period is completed.

Select Committee on Pension Policy

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September 10, 2004

Mr. John F. Charles, Chair, Pension Funding Council (PFC)
P.O. Box 48380
Olympia, Washington 98504-8380

Dear Mr. Charles:

RE: SCPP RECOMMENDATION TO THE PFC

As required under RCW 41.04.281(4), the Select Committee on Pension Policy (SCPP) received and studied the results of the preliminary actuarial audit report dated August 31, 2004 and recommends that the Pension Funding Council adopt the preliminary 2005-07 contribution rates, as calculated by the State Actuary, including the cost of recognizing the liability associated with future gain-sharing benefits.

The SCPP supports the continued full funding of the Washington State retirement systems, but also realizes the significant financial commitment associated with implementing required contribution rate increases, in the short term, may present a financial hardship for retirement system employers and Plan 2 members. In response, the SCPP is discussing a legislative proposal that would phase-in required employer and Plan 2 member contribution rate increases over a 6-year period; followed by a permanent contribution rate floor thereafter.

Sincerely,



Senator Karen Fraser, Chair



Representative Steve Conway, Vice Chair

cc SCPP members
PFC members
PFC work group

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Representative Gary Alexander

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TRS Retirees

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TRS and SERS Employers

Bob Keller
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